ED for EXPANDING LIVESTOCK CREDIT in the SOUTHEAST

FCS RESEARCH REPORT 28
FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

KEY WORDS

Credit, Cattle, Livestock, and Cooperatives

ABSTRACT

Credit needs are projected to 1985 to finance the expansion of cattle production. Cooperatives are one of the sources that can be expected to assist in providing money to expand livestock production. Farmers will need to make long-range credit arrangements for 7 to 9 years.

CONTENTS

FCS Research Report 28 March 1975

HIGHLIGHTS AND CONCLUSIONS

The number of cattle on farms in the Southeast has increased since 1950. Most of the growth has come in cow herds that produce feeder calves. Changes in the types of crops grown, improvements in forage production and utilization, and a scarcity of farm labor have encouraged the shift to more cattle. The increase in the number of cattle and an increase in the number of people owning livestock have led to a need for long-term credit. The cash crop system that was prevalent in the Southeast required only short-term seasonal credit.

A survey of livestock farmers in the Southeast late in the summer of 1973 provided information on their current operations, future plans, sources of borrowed capital, and problems in obtaining credit to finance cattle operations. Most of the cattle farmers maintain a cow herd to produce feeder calves that are marketed to be fed in feedlots on the High Plains and in Arizona, southern California, and the Corn Belt.

The survey showed that 81 percent of the cattle produced by southeastern farmers were sold as calves and feeder cattle in 1972, and about 19 percent were marketed for slaughter.

The farmers expected to increase the number of beef cows and heifers for beef cow replacements 4 percent from 1973 to 1974 and 15 percent from 1973 to 1980. Only a few farmers indicated that their plans were definite for more than 3 years. A high proportion of them were not planning ahead for as long as 5 to 7 years. The lack of long-term planning reported may be due to the advanced age of many of the present livestock producers. However, many younger farmers are likely to become cattle raisers during the next 10 years.

About 25 percent of the cattle growers were using borrowed money in financing their operations. Sixty percent of these farmers borrowed from local banks and 36 percent from production credit associations.

Most of the borrowers obtained their loans from one source. More than 35 percent, however, borrowed from two or more sources. Local banks and production credit associations were the most frequent lenders to farmers who used more than one source of credit.

Less than 10 percent of the farmers indicated that they had problems in financing a small-scale cattle operation. However, problems arose

when expansion was planned. The major problems experienced in getting lenders to provide credit for expansion were: (1) the lender has little or no experience with cattle loans, (2) the lender specializes in crop loans that must be paid off at harvest time, (3) cattle loans do not cover enough time to permit establishing an economical cow-calf operation, (4) the lender requires too much collateral in addition to the cattle, and (5) in some cases a farmer must purchase stock in order to become a borrower.

Most of the cattle operations are small at the present time. However, there is evidence that farmers are increasing the size of their herds and that there is a growing need for larger amounts of credit. The survey showed that 85 percent of the farmers would need to borrow less than $25,000 in 1974 for their cattle enterprise. On the other hand, it is estimated that by 1977 those requiring loans of more than $25,000 will account for more than 60 percent of the cattle produced by all the farmers. Many of the large operators—those with more than 250 cows—indicated that they would need to borrow more than $100,000.

A separate survey of the Mississippi members of a livestock-marketing cooperative showed that almost half of them borrowed money to finance their cattle operations as compared to the 25 percent of farmers in the Southeast who borrowed for this purpose. Moreover, the cooperative's members marketed more animals per farm than did the average livestock producer in Mississippi.

Changing production and management practices such as "backgrounding" calves and growing cattle to heavier weights on pastures and crop residues and crop byproducts will substantially increase the credit needs of cattle producers in the Southeast in future years.

Lending institutions in the Southeast are presently active in making livestock loans, but competition for credit from enterprises other than agriculture will make it difficult for them to meet the needs of an expanding livestock industry. The credit needs of Southeast producers could exceed $3 billion by 1985. If the livestock industry in the Southeast is to continue to be viable and grow, it may become necessary to develop additional sources of credit for livestock farmers to supplement those now available.

NEED for EXPANDING LIVESTOCK CREDIT in the SOUTHEAST

R. L. Fox[1] *and L. L. Monroe*[2]

INTRODUCTION

Livestock production enterprises in the southeastern States are of many types and sizes. The enterprises range from those of families, often with employment in industry, who live in the country and farm on a part-time basis to those of a few large operators who receive their primary source of income from livestock production. In between these two extremes are the high proportion of farmers raising a relatively few head of livestock compared with the number commonly raised in some other regions of the United States. Though the individual livestock operations differ greatly, they generally have in common some degree of financing, or the paying out of money to meet the expenses of acquiring and raising livestock. Often this involves a need to use credit.

Since 1950, the number of beef cow herds and the number of hogs have increased substantially in the Southeast. Table 1 shows the increases in the number of beef cows from 1970 to 1974. Most of the beef cows have

[1] *Senior agricultural economist, Farmer Cooperative Service, U.S. Department of Agriculture, Washington, D. C.*

[2] *Extension marketing specialist, Mississippi State University, State College, Miss.*

been used to produce lightweight calves that are moved to feedlots on the High Plains and in Arizona, southern California, and the Midwest.

Table 1—Beef cows on farms, 8 selected States in Southeast, January 1, 1970-74

State	1970	1971	1972	1973	1974
			1,000 head		
Alabama	929	915	951	995	1,060
Arkansas	871	908	975	1,038	1,096
Florida	1,031	1,027	1,069	1,136	1,282
Georgia	830	856	887	909	935
Louisiana	839	820	885	910	905
Mississippi	1,135	1,141	1,189	1,249	1,285
South Carolina	252	255	275	295	288
Tennessee	964	970	1,048	1,124	1,125
Total, 8 States	6,851	6,892	7,279	7,656	7,976
Total U.S.	36,404	37,533	38,725	40,918	42,874

Source: (2) in appendix C.

Further expansion of cattle raising in the region is likely; for according to a U.S. Department of Agriculture report, "The Southeast is expected to continue enlarging its beef cow inventory. Factors responsible for past growth will influence future expansion. These include more specialization in farming, farm consolidations, increasingly scarce and costly farm labor, technological improvements in forage production and utilization, and a continuing trend toward part-time farming." [3]

The rate of the expected increase in the number of beef cows in the region may be less from 1974 to 1980 than in the past 15 years. However, the eight States considered in this study (fig. 1) have already reached more than half of the growth rate predicted for the period 1970 to 1980. Two States, Florida and South Carolina, have attained 82 percent of the expected 1970-80 growth rate. Despite shifts in land use, rising land costs, an increase in the practice of carrying calves to heavier weights, and even the possibility of increased feeding activities, most experts expect the number of beef cows in the region to increase by more than 30 percent by 1980. For each additional beef cow, the additional investment could range between $400 and $750, exclusive of the cost of land.

In view of its undeveloped potential pasture land, long growing season, mild winters, and abundant rainfall, the Southeast is considered the best region for the expansion of beef cow herds. In this region there is an opportunity to increase the output of grass and other forage crops and to feed crop residues not fully utilized at the present time.

[3] *Page 35, (10) in appendix C.*

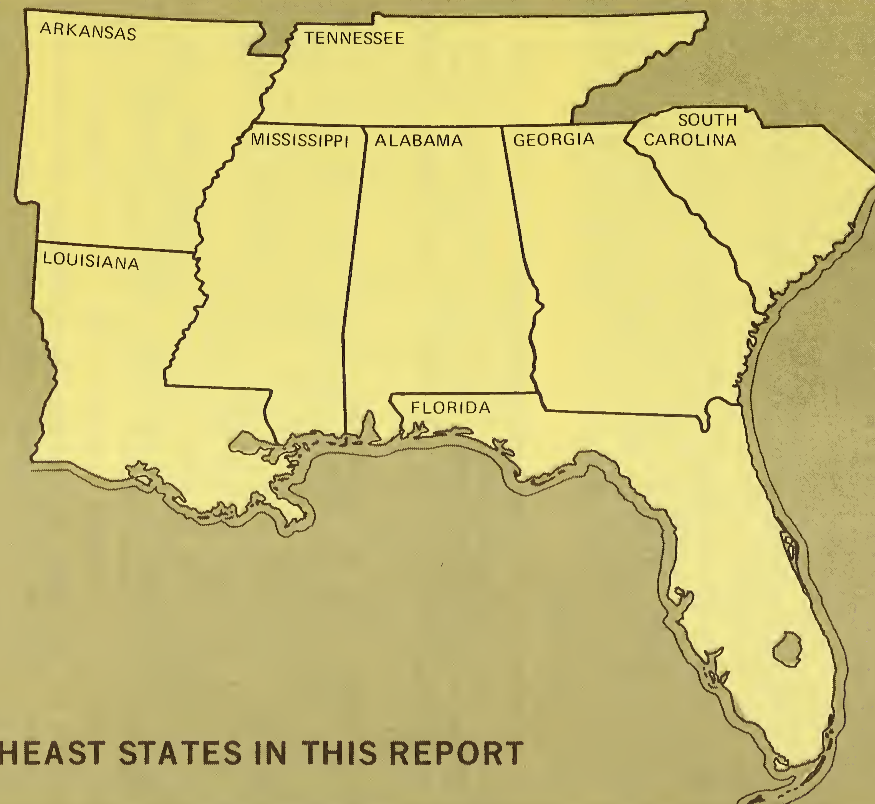


FIGURE 1.--
EIGHT SOUTHEAST STATES IN THIS REPORT

OBJECTIVES AND METHODS

This study was undertaken to explore the need for additional credit to finance an expanding livestock industry in the Southeast. Primary and secondary data were used. Particular emphasis has been placed upon cattle operations. An attempt was made to discover the present sources of credit and their ability to supply financing in the future.

The USDA Statistical Reporting Service, through five State agricultural statisticians, conducted a mail survey in Alabama, Arkansas, Florida, Georgia, and Mississippi in the late summer of 1973. Farmers producing livestock were queried.[4] It was necessary to learn from each respondent the type of livestock operation he had; his future livestock production plans; the number of animals he was marketing; the number he expected to market in the future; his sources of credit, if any, for cattle raising; his problems, if any, in obtaining such credit; and his anticipated credit needs for cattle raising.

The importance of beef cow herd operations in the Southeast and the necessity to keep the questionnaire short dictated the need to restrict all specific credit questions to cattle. In handling the results of the survey, the accepted expansion factors of the USDA Statistical Reporting Service were used.

In September 1973 the Agricultural Extension Service of Mississippi State University conducted a mail survey of patrons of a livestock marketing cooperative serving Mississippi, Louisiana, Alabama, and portions of adjacent States. The patrons surveyed were nearly all located in Mississippi. The results of the survey are recorded separately.

The Mississippi survey findings were used in combination with the results of the SRS survey, together with published information[5] and unpublished data of researchers in the States and USDA, to determine credit needs of the livestock industry in the eight southeastern States considered in this study. No attempt was made to evaluate borrowers' management ability or their ability to repay loans.

Although Louisiana, South Carolina, and Tennessee livestock producers were not mailed questionnaires, extrapolations of data were made for these three States. The findings given in the remainder of this report, except where it is otherwise stated, are for the eight-State area.

The only apparent distinctions exhibited by data used for the three additional States are that in South Carolina and Tennessee a slightly higher percentage of farmers were engaged in producing slaughter hogs and that in Tennessee, farmers produced a higher percentage of feeder pigs than did farmers in other States.

---

[4] *Appendix A presents the questionnaire used in the survey.*
[5] *See appendix C.*

RESULTS OF QUESTIONNAIRE SURVEY

Type of Livestock Operation

About 22 percent of the farmers queried had more than one kind of livestock on their farms, and about 8 percent of them were engaged in dairying—several of them had large dairy enterprises. No returns were received from farmers who were exclusively engaged in swine production, but some livestock producers had both sizable beef and sizable pork operations.

In the eight-State area studied, 81.4 percent of the livestock operators had beef cow herds, 7.8 percent were engaged in cattle feeding, 6.3 percent were feeding out slaughter hogs, and 4.3 percent were producing and marketing feeder pigs.

Plans for Expansion

The analysis of farmers' expansion plans considered only the expected increase in the number of beef cows and heifers for beef cow replacement. The expected increase from 1973 to 1974 was 4 percent, and the expected increase from 1973 to 1980 was 15 percent. The figures for the period 1973 to 1980 were only about three-quarters of the expected increase expressed by production specialists and other livestock experts in the Southeast. Table 2 shows the increased number of all cattle and calves on farms in the eight-State area in each of the years 1971 to 1974. Much of the low rate of increase expected after 1975 was due to lack of planning for 1975-80 by respondents. This may be related to the advanced age of a number of the farmers, a factor discussed in the following section.

Table 2—All cattle and calves on farms, selected States in Southeast, January 1, 1970-74

State	1970	1971	1972	1973	1974
			1,000 head		
Alabama	1,953	1,973	2,050	2,112	2,240
Arkansas	1,805	1,787	1,931	2,028	2,140
Florida	1,827	1,864	2,130	2,237	2,490
Georgia	1,889	2,002	2,042	2,062	2,103
Louisiana	1,705	1,705	1,728	1,763	1,745
Mississippi	2,487	2,537	2,322	2,415	2,610
South Carolina	642	661	643	662	670
Tennessee	2,308	2,354	2,472	2,520	2,690
Total, 8 States	14,616	14,883	15,318	15,799	16,688
Total U.S.	112,048	114,310	117,608	121,739	127,450

Source: (2) in appendix C.

Livestock Marketings

The study showed that cattle marketings were the most important part of livestock marketings. Eighty-one percent of the cattle were marketed as calves and feeder cattle. About 19 percent were marketed as slaughter cattle. The slaughter cattle included steers, heifers, and cull cows and bulls from the beef cow herds.

The percentage increase or decrease from 1972 levels in expected livestock marketings varied from State to State. The combined expected marketings of calves, feeder cattle, and slaughter cattle were greater for the years 1973 to 1980 than the marketings in 1972. However, the gain for Arkansas was smaller than for the other States; there were decreases

Table 3—Percentage changes in number of livestock that farmers planned to market, 1973-75 and 1980, five selected States in Southeast [1]

[Percentages enclosed in parentheses represent decreases; all others represent increases]

State	1973	1974	1975	1980
	Percent			
ALABAMA				
Calves	5.1	4.6	10.0	9.9
Feeder cattle	106.1	171.0	292.6	648.0
Slaughter cattle	6.6	10.0	18.0	38.9
Feeder pigs	3.0	4.3	11.1	(64.8)
Slaughter hogs	5.0	33.8	32.3	55.4
ARKANSAS				
Calves	(6.9)	(13.0)	(22.3)	(20.8)
Feeder cattle	(7.1)	(17.7)	(13.4)	(1.1)
Slaughter cattle	16.3	15.2	31.0	94.5
Feeder pigs	....	....	....	....
Slaughter hogs	122.4	253.9	299.3	234.3
FLORIDA				
Calves	19.3	12.0	11.4	50.3
Feeder cattle	(51.8)	(49.4)	(39.3)	1.2
Slaughter cattle	66.7	47.9	34.8	57.5
Feeder pigs	7.0	7.0	7.0	7.0
Slaughter hogs	11.5	85.7	81.1	84.0
GEORGIA				
Calves	(2.9)	(5.1)	(0.6)	(10.9)
Feeder cattle	13.4	9.0	32.9	71.1
Slaughter cattle	(0.1)	18.6	37.9	36.5
Feeder pigs	(3.7)	......	1.9	3.7
Slaughter hogs	......	5.9	4.8	8.8
MISSISSIPPI				
Calves	35.0	64.3	34.5	77.9
Feeder cattle	17.5	47.8	63.6	124.7
Slaughter cattle	22.7	11.8	21.0	36.7
Feeder pigs	....	....	....	....
Slaughter hogs	7.0	9.7	9.7	14.7
FIVE-STATE AREA				
Calves	10.7	9.4	5.4	24.8
Feeder cattle	15.4	24.0	50.8	128.5
Slaughter cattle	8.0	19.6	34.4	43.2
Feeder pigs	2.3	3.9	9.9	(54.4)
Slaughter hogs	23.9	63.4	69.9	63.9

[1] Change from the 1972 levels.

for Arkansas for 1974 and 1975 and then a substantial increase in slaughter cattle for 1980. Table 3 indicates that substantial increases in the number of all cattle marketed may be expected in the Southeast in the period 1973-1980.

While all available predictions point to an expansion in the number of cattle in the Southeast through 1980, it is recognized that the people in the cattle business at the time of this survey may not be the ones in cattle production in 1980. There was no attempt to determine the age of respondents, but results from one State indicated that 3 percent of the livestock producers were more than 78 years of age. This information came from voluntary responses to the questions about plans for 1980. The plans of producers may be uncertain and may depend on many conditions that develop, especially the outlook for prices. Many producers will be retiring within the next 10 years, and new ones will be entering the livestock business. Many of the newer and younger producers will probably have large units that will account for some of the predicted expansion.

Borrowings for Cattle Operations

Evidently the question of whether they had borrowed was one of the most confusing to farmers, for the responses indicated that only about 25 percent had borrowed money to finance their present cattle operations. Before answering the next question, a substantial additional number indicated by written notes that they had borrowed from different sources to finance their cattle enterprise. An interpretation of the notes suggests that more than 30 percent of the livestock producers in the Southeast did borrow for this purpose.

It appears from an analysis of individual questionnaires that the larger cattle operators borrowed more often than the smaller operators, with the exception of those in Arkansas, where smaller operators indicated that they borrowed more frequently than the larger operators.

The study indicates that 25 percent of the cattlemen in the eight States borrowed to finance their present operations. The percentage varied from a low of about 18 percent in Mississippi to 31 percent in Florida.

Sources of Borrowed Capital

The sources from which the farmers borrowed money to finance their cattle operations and the percentage of the borrowers who got loans from each source were: local banks, 60 percent; production credit associations, 36 percent; insurance companies, 2 percent; and all other sources, 2 percent. The magnitude of the loans to cattlemen from each source was not ascertained. A few of the larger operators borrowed from insurance companies. While local banks supplied credit to the greatest number of

cattlemen, the cattle operations of these men were the smallest, with the exception of the operations of those farmers who borrowed from the Farmers Home Administration.

The size of cattle operation of farmers who borrowed from production credit associations varied widely. Most of them raised livestock as a sideline enterprise or had their total credit line for all farm enterprises financed by production credit associations, or both. The number of animals of these borrowers ranged from less than 10 to several hundred head.

Most of the borrowers obtained their loans for financing cattle operations from one source. However, more than 35 percent of those borrowing money obtained credit from two or more sources, often from local banks and production credit associations. More than 10 percent of the cattlemen indicated that they obtained credit from as many as four sources. Farms organized as corporations having other business interests reported no separate borrowings to finance their cattle operations.

Recent changes in Farm Credit Administration legislation and other factors evidently enabled some borrowers to use money for several purposes. A number of people reported that they used money borrowed from the Federal Land Bank to finance cattle operations. It could not be determined from the survey data whether such a borrower purchased a cattle operation along with a land purchase financed by the Federal Land Bank or whether he simply borrowed enough on his land to finance a cattle business.

Although the questionnaires were designed to discourage write-in comments, several people did elaborate in answering the question about sources of credit. Typical comments indicated that they borrow, not to finance cattle, but to finance crop production, land purchases, and other activities; and to secure sufficient funds to enable them to carry on their livestock operations. One must conclude from the comments that only a limited number of lenders require that borrowers list cattle as collateral for loans, although credit for livestock operations may be included in the total amount borrowed.

Problems in Financing Cattle Operations

Less than 10 percent of the cattle producers indicated that they experienced any serious trouble in financing cattle operations on a relatively small scale. The following were listed as problems experienced in obtaining credit for planned expansion of the cattle business:

1. The lender has little or no experience with cattle loans.
2. The lender specializes in crop loans that must be paid off at harvest time.
3. Cattle loans do not cover enough time to permit establishing an economical cow-calf operation.

4. The lender requires too much collateral in addition to the cattle.
5. A farmer must purchase stock to become a borrower. (Evidently this refers to production credit association requirements.)

Financing Future Cattle Operations

About 25 percent of the farmers reported that they expected to borrow money to finance future cattle operations. However, only 20 percent of the Arkansas and Mississippi cattlemen indicated that they planned to borrow money. The figures are difficult to interpret because all trends point to a sizable expansion in livestock production in the Southeast, and this would involve a need for more capital. We believe that the farmer with livestock is thinking about the financing of a total agricultural operation which would include land, livestock, and crops, instead of a specialized livestock program. Possibly enough capital will be generated from other operations to finance a livestock program.

Money Needed for Future Cattle Operations

Farmers' responses to the question of the amounts of borrowed money they would need to finance future cattle operations fell into seven categories. In our final analysis, we reduced these to four: $25,000 or less, $25,000 to $75,000, $75,000 to $200,000, and more than $200,000. As might be expected in view of the relatively small size of most of the cow herds reported, 85 percent of the farmers indicated that they would need to borrow $25,000 or less, 10 percent would need to borrow $25,000 to $75,000, 3 percent would need to borrow $75,000 to $200,000, and 2 percent would need to borrow more than $200,000.

It is estimated that the livestock producers requiring loans of more than $25,000 by 1977—to carry the cattle, not to finance the land or facilities needed—will produce more than 60 percent of the cattle. Table 4 gives the valuation of cattle and calves in each of the eight States

Table 4—Valuation of cattle and calves, 8 selected States in Southeast, January 1, 1970-74

State	1970	1971	1972	1973	1974
			1,000 dollars		
Alabama	263,655	295,950	338,250	432,960	571,200
Arkansas	261,725	285,920	357,235	446,160	556,400
Florida	292,320	307,560	383,400	559,250	759,450
Georgia	264,460	310,310	336,930	422,710	557,295
Louisiana	238,700	281,325	319,680	396,675	471,150
Mississippi	373,050	405,920	406,350	543,375	678,600
S. Carolina	93,090	99,150	102,880	135,710	167,500
Tennessee	369,280	400.180	457,320	579,600	753,200
8 State total	2,156,280	2,386,315	2,702,045	3,516,440	4,514,795
U.S. total	20,170,700	21,130,460	24,519,645	30,691,129	40,905,700

Source: (2) in appendix C.

considered in this study from 1970 through 1974 and, of course, reflects changes in numbers and prices of the animals.

Florida and Georgia were the States where the highest percentages of the farmers expected to need more than $200,000 in borrowed funds. Twelve percent of the Florida cattlemen and 6 percent of the Georgia cattlemen planned to borrow more than $200,000. Florida was the only State where more than 75 percent of the borrowings would be larger than $25,000. Twenty-one percent of the Alabama cattlemen said that they would need to borrow more than $25,000, and most of these indicated that they would need $25,000 to $75,000. Slightly more than 19 percent of the Georgia producers said they would need to borrow $25,000 to $75,000, and 6 percent said they would need more than $200,000.

Several individuals who failed to fill in the amounts of money they would need to borrow in 1974, 1975, or 1980 stated that their present borrowings exceeded $100,000. If this holds true for extrapolated data for the universe, a substantial number of people already are borrowing larger amounts to finance their cattle operations than they reported on the questionnaire. Many large growers indicated that they would need amounts in excess of $100,000 and, in some cases, in excess of $200,000.

The percentages of the livestock producers with large cattle operations (more than 250 cows) in the five States surveyed who said they would need to borrow more than $100,000 were: Alabama, 16; Arkansas, 0; Florida, 20; Georgia, 22; and Mississippi, 32 percent. These generally substantial percentages were to be expected, since the sample included most of the large cattlemen. This group of farmers are usually inclined to operate on borrowed capital.

MISSISSIPPI STATE UNIVERSITY SURVEY

In September 1973 staff members of the Extension Service of Mississippi State University conducted a mail survey[6] of the Mississippi patrons of a livestock marketing cooperative to discover whether members of a cooperative were different than the livestock producers in the total universe. This cooperative serves farmers in Mississippi, Louisiana, and Alabama and portions of adjacent States.

Respondents marketed about 130 head of livestock each year, substantially more than the average producer in Mississippi. Money was borrowed by 49.2 percent of the farmers to finance their cattle operations. Difficulties in borrowing money were reported by 16.1 percent. This was higher than the percentage of all livestock farmers reporting such difficulties, as was to be expected, since these patrons were bigger operators, on the average.

The cooperative members indicated that they expected to market about 8 percent more cattle in 1973 than in 1972 and over 18 percent more

[6] *Unpublished.*

cattle in 1975 than in 1973. They expected to market a total of 27.5 more cattle in 1975 than in 1972. No inquiry was made as to estimated increases from 1975 to 1980.

A cow-calf operation was the livestock business of 75 percent of the producers. About 21 percent grazed calves on pastures after calves had reached weaning age and weight. The remaining livestock growers had some combination of the two types of operation. There is little feeding of cattle for slaughter in Mississippi.

COOPERATIVES AND CREDIT

There are cooperatives engaged in marketing livestock and livestock products from all of the States included in this study. However, most of the volume originates in only half of the area. Marketing of feeder and slaughter animals is the major business of the existing livestock marketing associations. One cooperative operates two pork slaughtering and processing plants and provides feedlots for finishing cattle to slaughter weight.

None of the cooperatives provide credit services to their patrons. However, the larger ones work closely with bankers, local production credit associations, and other lenders when patrons are interested in finding sources of credit.

One livestock cooperative in the eight-State area is studying the feasibility of adding a credit subsidiary to lend funds to its patrons to help them expand livestock production. A cotton marketing association lends a limited amount of money to cattle-raising members through its credit subsidiary to help them better utilize crop residues and land.

AMOUNT OF CREDIT NEEDS

The inventory valuation of cattle and calves on farms in the eight States covered by this study was $4,515 million on January 1, 1974 (table 4). The valuation increased more than 109 percent during the previous 4 years. We recognize that there will be some increases and decreases in valuation attributable to price levels. Nevertheless, it is estimated that as the number of cattle and calves in these States increases, the valuation will reach $8 billion to $10 billion by 1985. This means that cattlemen's needs for credit will become much greater.

It is estimated that during the last half of 1973 livestock loans in the eight States totaled less than $990 million. The expected increases in cattle production will probably mean that a larger amount of credit will be needed in the future. Some experienced production and marketing people have expressed the opinion that 35 percnt of all livstock production in the Southeast will need to be financed on credit each year from 1977 to 1980 and that more than 40 percent will need to be financed on credit each year from 1981 to 1985. If these estimates are accurate, the credit

needed during the period 1978-85 will amount to more than $3 billion, or more than three times the total of outstanding loans on livestock in 1973. A large part of the increased loan demand will come from capital-short younger farmers who will be entering the livestock business.

Indications are that the Southeast will increase the number of cattle in a "backgrounding" program. Additional grazing is expected to put on the first 60 to 70 percent of the final slaughter weight. It is expected further that more cattle will be finished with grain supplement feeding in the region. Under both kinds of management, added weight from grass and feeding more grain will cause farmers' financial requirements to increase. Loans will have longer duration, since the cow-herd type of operation demands almost continuous financing, especially when expansion is in progress.

Feeding and grazing loans generally can be repaid on a seasonal basis. However, as feeding becomes more important the year round, the financing will be more of the draw-down type for feed and other services in addition to the original cost of cattle. Loans of the feeding and grazing type would involve financing for 2 to 6 months or, under some exceptional conditions, a few months longer.

In view of the lending of various financial institutions in 1973, the demand for livestock credit could exceed the capability and desire of those now in the lending business by as much as $200 million in 1980. Competition from other outlets for money at higher rates of return will probably lessen the funds available for agricultural enterprises, including livestock expansion. If the livestock industry in the Southeast is to continue to be viable and grow, it may become necessary to develop other sources of financing to supplement those now available to livestock producers.

SOURCES OF AGRICULTURAL CREDIT IN THE SOUTHEAST

The basic economy of the Southeast has depended upon extension of agricultural credit since the beginning of farming in that region. It has only been in recent years that there has been a variety of lending sources for the use of farmers. On account of the traditional emphasis on specialized crop production in this region and the emphasis that has been placed on poultry and crops for about 30 years, red meat animals have received comparatively minor attention. Most of the money loaned to the integrated poultry industry comes from large lending institutions, while loans for livestock production are fragmented among several categories of lenders.

Since the 1950's, livestock production in the Southeast has become so important as a source of cash income that today it requires a large amount of capital for longer periods of time than crop and poultry production. Much of the livestock industry has developed as a sideline business and

has not required substantial loans from the traditional financial institutions. The industry has grown from savings accumulated by small operators, usually part-time farmers or those with full-time jobs in industry who like to raise a few animals. It has been common practice to use land as collateral for cattle loans. A small operation requires less borrowed capital than a livestock venture that is expected to be a major income producer. Only with the trend to larger numbers of animals has the need arisen to find additional sources for greater amounts of financing.

The eight States considered in this study have a number of sources that can and will make livestock loans if they desire to supply money for this purpose.

There are 90 production associations with 290 branch offices in the eight States.[7] Many of the branch offices are operated only 1 day each week, but the main offices are near enough to most livestock producers to make loans to them at any time. The production credit associations supply a full line of credit for production of both crops and livestock. In this region the major loans are for crop production. Farmers are encouraged to produce livestock so that they may better utilize crop residues, help promote a more stable economy, and not be totally dependent on a single source of income. The estimated total of production credit association loans outstanding on cattle in the eight States studied was $400 million in September 1973.

Of the 2,357 insured commercial banks in the eight States, 84 percent were involved in making non-real-estate agricultural loans in 1973. We have assumed that practically all of the banks that are making production loans service livestock growers. It is estimated that bank loans on cattle in the eight States totaled $350 million on July 1, 1973.[8]

Many banks have found that they can receive higher returns on nonagricultural loans than on credit extended for agriculture. This has made it more difficult for farmers to borrow money. Rural, or local, banks are actively engaged in lending to farmers at present. We found that these institutions had no set policy on making livestock loans on an areawide basis. The criteria for completing loans vary widely, even among banks in the same locality, with the result that the effort to borrow becomes somewhat frustrating to those seeking money for expansion of their livestock operation. Some of the smaller banks are restricted by regulation as to the amount they can loan to an individual, but this problem is being overcome through participation with correspondent banking institutions in less restricted loans.

The most serious complaint that livestock growers expressed about obtaining loans from local banks is that livestock is not usually accepted

---

[7] *See appendix B.*
[8] *Item 6 in appendix C.*

as full collateral. It appears that both small and large livestock producers are able to borrow from local banks if they have sufficient collateral or have a successful operating history. A number of people in the process of rapidly expanding their livestock operation and those wishing to engage in extended feeding operations report more difficulty in obtaining loans needed to develop economical production units. Little risk is taken in considering or granting livestock loans in most areas.

The Farmers Home Administration makes loans for the purchase of livestock, as well as for other production activities, in all eight States. Such loans outstanding at the end of the 1973 fiscal year totaled about $20.3 million. Fifty-six percent of the loans were made in Arkansas and Mississippi. These loans require close supervision. As the borrowers increase the size of their operations, they will accumulate knowledge about managing their livestock enterprises. They could be potential borrowers of the lenders of larger amounts, at a later time, if their requirements should exceed the Farmers Home Administration limitations.

It is impossible to make detailed estimates of the amount of capital supplied to cattle producers by insurance companies, relatives, and friends. At least two large insurance companies have experience in this field and have made substantial loans to finance livestock producers in the Southeast for an extended period of time. Farmers' responses to the survey questionnaire showed that, although few reported borrowing from friends and relatives, an unusually large amount of the capital used to finance their livestock operations came from these two sources. It does not appear that friends and relatives have the funds to loan for a big expansion of the cattle business in the Southeast. However, there is no doubt that such loans can help many operators get started in a new or expanded livestock production program.

Possibly there are other sources of credit that may be used soon in financing livestock production in the Southeast. Some people unrelated to the cattle industry are interested in furnishing money for its expansion. So-called "Wall Street money" is financing cattle in feedlots and in cow herds on ranches and farms in other areas. Large integrated groups engaged in the cattle-feeding business may bring in money to finance production of more calves for their feeding operations in other regions. Even feed companies can and occasionally do supply credit to livestock producers. They might increase this type of credit extension if it becomes necessary to assist them in keeping their feed business.

All of the sources just discussed might supply capital for expansion of cattle production if they are willing to put their money into livestock production. It is not expected that they will decide to do this, as nonagricultural uses will increasingly compete with agricultural uses for credit and will absorb available capital at higher rates than farmers can afford to pay.

According to a series of articles in the December 1973 issue of *Feedstuffs:*

> The number one problem in the cattle business in the South today is financing. . . .
>
> Southern feeders say they are in a bind because financial houses, plus government agencies, do not look upon their feeding operations in the same manner that lenders do in the West.
>
> Bankers are still acclimated to row crop farmers. Government agencies have too much red tape and too many bureaucratic decisions as to whether a cattle operator is engaged in agriculture or a business.
>
> The truth of the matter, cattlemen say, is that a farmer can go to a bank and get funds to plant corn, cotton, or even set out pecan trees on a much greater risk program than cattle production.

While many people have expressed the need for additional credit to finance livestock expansion in the Southeast, only a few studies have been made to try to project the magnitude of the need. In January 1973 the College of Agriculture of the University of Georgia investigated the adequacy of credit for financing beef production. Ten responses from a selected sample of outstanding representatives of all important credit agencies on lending to Georgia farmers included the following points: [9]

1. "We have a credit system in Georgia that will and can adequately finance a healthy expansion of the beef industry in the State," according to one response. "Credit is not a limiting factor."
2. One respondent indicated that cattle are not accepted as collateral for loans.
3. Most cattle loans will be for land-based enterprises and should run for 20 years or longer.
4. Most respondents called 3- to 7-year loans short-term, rather than intermediate loans.
5. Some alterations will need to be made in the traditional financial channels to provide adequate financing for the cattle-feeding industry.

The farmer survey conducted as part of the present study indicated that there was a greater unmet need for cattle financing than the opinions expressed by the Georgia leaders indicated.

---

[9] *From an unpublished report, (5) of References, p. 19.*

APPENDIX A—QUESTIONNAIRE USED IN THE SURVEY

OMB Number 40-S73032
Approval Expires 10-31-73

Survey of Credit Needs of Cattle Producers

Dear Sir:

Ample credit is vitally important for expansion of the livestock industry in the South. Your answers to the questions below will help the Department of Agriculture determine the nature and amount of credit a cattleman will need in future years. By comparing the need with present sources, ways to meet future credit requirements for continued expansion of cattle production can be recommended.

Please return this questionnaire promptly in the enclosed postage-free envelope, even though you may not have any livestock on hand now. Your individual report will be kept strictly confidential.

Sincerely,

State Statistician

---

1. What kind of livestock operation do you have? (check as many as apply).

☐ Cow-calf ☐ Feeder pig

☐ Cattle feeder ☐ Hog feeder

2. How many of the following kinds of breeder stock did you or do you expect to have on the following dates?

	a. Number on hand:	b. Number you expect to have on hand June 1 of the following years:		
	June 1, 1973	*1974*	*1975*	*1980*
	Number	*Number*		
Beef cows and heifers for beef cow replacement --------	_____	_____	_____	_____
Milk cows and heifers for milk cow replacement --------	_____	_____	_____	_____
Sows and gilts for breeding -	_____	_____	_____	_____

3. How many of the following kinds of livestock did you or do you expect to market during the following years?

	a. Number you marketed during:	b. Number you expect to market during:			
	1972 *Number*	*1973*	*1974*	*1975*	*1980*
Calves ----------	____	____	____	____	____
Feeder cattle -----	____	____	____	____	____
Slaughter cattle ---	____	____	____	____	____
Feeder pigs -------	____	____	____	____	____
Slaughter hogs ----	____	____	____	____	____

The following questions refer only to your cattle operations. (Check one.)

4. Did you borrow money to finance your present cattle operations?

Yes ☐ No ☐

5. If yet in item 4, from what sources did you borrow? (Check as many as apply.)

☐ Local Banks

☐ Production Credit Association

☐ Insurance Companies

☐ Farmers Home Administration

☐ Relatives or friends

☐ Other (Specify) ____________________

6. Have you had any problems in obtaining money to finance your cattle operation? (Check one.)

Yes ☐ No ☐

If yes, what type of problems?

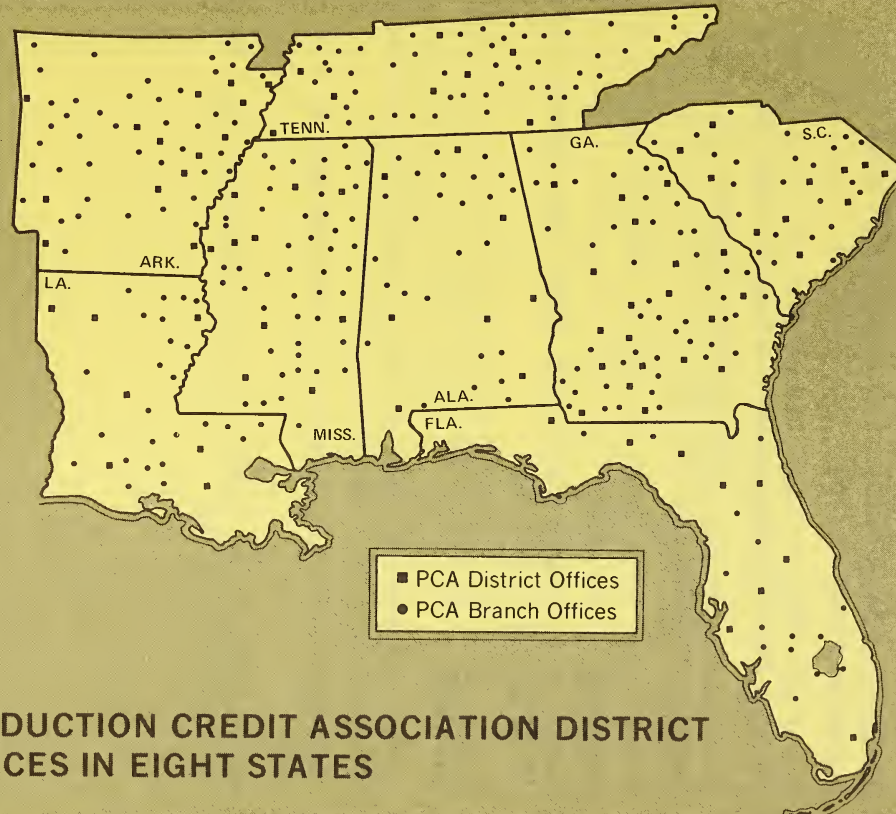
----

7. Would you expect to borrow money to finance your future cattle operations? (check one.)

Yes ☐ No ☐

8. If yes in item 7, please check the amount of borrowed money needed in each of the following years:

	1974	*1975*	*1980*
Less than $10,000	☐	☐	☐
$10,000 - $25,000	☐	☐	☐
$25,000 - $50,000	☐	☐	☐
$50,000 - $75,000	☐	☐	☐
$75,000 - $100,000	☐	☐	☐
$100,000 - $200,000	☐	☐	☐
$200,000 or more	☐	☐	☐



APPENDIX B.--
LOCATION OF PRODUCTION CREDIT ASSOCIATION DISTRICT AND BRANCH OFFICES IN EIGHT STATES

APPENDIX C—REFERENCES

1. Economic Characteristics and Future Prospects for the Cattle-Beef Industry in Georgia. J. C. Purcell. Ga. Agri. Expt. Stan. Sept. 1973.

2. Livestock and Meat Statistics. U.S. Dept. of Agri. Statis. Buls. 333 and 522 and Suppl. for 1973 to Statis. Bul. 522.

3. Beef Cattle Prices in Major Market Areas of Louisiana. Lonnie Fielder and Ronald Roberson. DAE Res. Rpt. 444. Sept. 1972.

4. Budgets for Major Crop and Livestock Enterprises for Small Farms in North and West Florida. Univ. of Fla. Econ. Rpt. 41.

5. Financing Beef Cattle Production. Fred B. Saunders. Univ. of Ga., Agr. Expt. Sta. Feb. 1973.

6. Report of Agricultural Credit Task Force. Amer. Bankers Assn. Washington, D.C. June 1973.

7. Western Livestock Round-Up. Colo State State Univ., Co-op Ext. Serv. Nov. 1973.

8. Credit to Farmers—The Story of Federal Intermediate Credit Banks and Production Credit Associations. W. N. Stokes, Jr. 1973.

9. Financing Farmer Cooperatives. Russell C. Engberg. Bank for Co-ops. 1965.

10. Cattle Raising in the United States. U.S. Dept. Agr., Agr. Econ. Res. Rpt. 235. Jan. 1973.

OTHER PUBLICATIONS AVAILABLE

Farmer Cooperative Service. What It Does—How It Works. 1974. Information 95, 2-fold.

Legal Phases of Farmer Cooperatives. D. Morrison Neely, Revised 1974.

Livestock Industry Trends. G. Alvin Carpenter, 1973. Information 92, 34 pp.

A Financial Profile of Farmer Cooperatives in the United States. Nelda Griffin, 1972. Research Report 23, 95 pp.

Livestock Cooperatives in the Southeast. John T. Haas, 1970. Research Report 13, 32 pp.

How to Start a Cooperative. 1965. Educational Circular 18, 18 pp.

Farmer Cooperatives in the United States. Revised 1965. Bulletin 1, 374 pp.

For copies, write Farmer Cooperative Service, U. S. Department of Agriculture, Washington, D. C. 20250.

FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *News for Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.